

APPENDIX A:
PROJECT DESCRIPTION
Otia Development Foundation Micro-credit Project – Nigeria

I. Introduction

This appendix describes the activities to be undertaken and the results to be achieved with the funds obligated under this Agreement. Nothing in this Appendix A shall be construed as amending any of the definitions, conditions, or terms of the Agreement.

II. Background

Benue State is popularly called the food basket of the nation due to its intensive agricultural activities. The land is fertile and the weather favorable for agricultural activities. However, the people of the State, and those of Otukpo Local Government Area (LGA) in particular, have remained very poor. The main reasons why are:


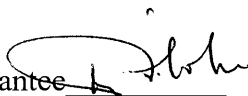
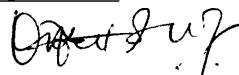
- ξ lack of access to credit facilities;
- ξ attraction to the military profession;
- ξ impact of HIV/AIDS; and
- ξ lack of formal training in business management.

Most farmers and micro-entrepreneurs lack the collateral and conditions necessary for obtaining loans in the conventional banking system. Banks consider them high risks since they lack any collateral for loans. Moreover, the cost of lending to them, given the relatively small size of loans, does not make it profitable for typical financial institutions to service them. Even if banks were willing to lend to subsistence farmers and micro-entrepreneurs, most lack the literacy and skills needed to navigate their way through the banks' loan procedures. The only alternative for them is the local moneylenders who charge exorbitant rates for very short-term capital. This situation tends to restrict most farming to subsistence level, and it constrains the start-up and expansion of small enterprises.

People in this area have a strong attraction to the military profession, leaving a substantial number of female-headed households, widows and young children. These women do not have collateral to obtain loans from banks. Many of the women are illiterate. Most people – men and women – have little or no formal training in business management, so that businesses often collapse after take-off.

The endemic proportion of HIV/AIDS in the area is fueling an increase in the number of widows and orphans to be cared for by economically active family members or relatives.

The level of demand for ODF's services already exceeds its supply of loan funds, and the demand has been increasing. About 300 current members have never been able to access a loan, and many others are awaiting a follow-up loan to grow their business. Moreover,

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ODF has new groups forming almost weekly. ODF is not able to keep up with demand due to the inadequacy of its resources.

Currently, there are only two organizations with significant micro-credit operations in Benue State – ODF and the Health and Development Organization (HADO). These organizations have different clients, so there is little chance of overlap in coverage, especially given the needs in the State. This project will help meet the demand for credit from many urban and rural poor in Benue State and enable ODF to achieve self-sustainability and become a dynamic micro-credit institution.

III. Funding

A. ADF Contribution

The financial plan for ADF's contribution is set forth in Appendix A-1 to this Agreement. The Parties may make changes to the financial plan without formal amendment, if such changes are made in accordance with Article 7 of the Agreement and do not cause ADF's contribution to exceed the obligated amount specified in Article 3, Section 3.1 of the Agreement.

B. Grantee Contribution

The Grantee will provide credit funds that it already has on-hand (estimated N9.0 million) and will cover various operating costs, including the salaries of four Assistant Project Officers (two after ADF's initial year of funding and two others for the duration of the project) and two Project Assistants (one after ADF's initial year of funding and the other for the duration of the project), and monitoring costs after the second year. It will also fund the new client pre-loan training after the second year of the project. The total estimated value for these items during the project is N17,521,600.


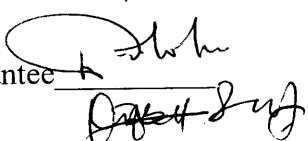
IV. Project Goal

The goal of the project is to improve the socio-economic status of the people in ODF's target areas of Benue State.

V. Project Purpose

The purpose of the project is to increase income of poor entrepreneurs and farmers in the communities of Benue state where ODF operates. From an estimated baseline of N12,000 per annum, the average participants' income will increase:

- 10% in the 1st year of participation;
- 10% additional in the 2nd year of participation;
- 10% additional in the 3rd year of participation;
- 15% additional in the 4th year of participation; and
- 15% additional in the 5th year of participation.

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VI. Outputs


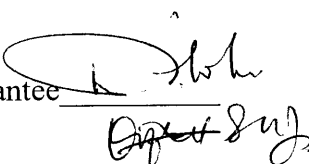
The five-year project has the following outputs and performance targets:

- ξ Access to credit increased for poor entrepreneurs and farmers in Benue State, as measured by:
 - size of accessible loan increased from N5,000 to N25,000;
 - 3,440 first-time borrowers (1,200 in 1st year; 0 in 2nd year; 1,110 in 3rd year; 140 in 4th year; and 990 in 5th year);
 - 12,000 loans extended (1,200 in 1st year; 1,575 in 2nd year; 2,610 in 3rd year; 2,475 in 4th year; and 3,240 in 5th year).
- ξ Skills enhanced of participating entrepreneurs in micro-credit and enterprise management, as measured by:
 - 3,440 new members trained in small business management (1,200 in 1st year; 0 in 2nd year; 1,110 in 3rd year; 140 in 4th year; and 990 in 5th year);
 - group leaders maintaining loan records of members; and
 - entrepreneurs maintaining their own business records.
- ξ ODF's operational efficiency and effectiveness improved, as measured by:
 - 98% loan recovery each year of the project;
 - operational sustainability attained by end of 1st year and maintained annually thereafter through end of project;
 - full financial sustainability attained by end of project;
 - ODF staff produce quarterly financial reports and auditable annual statement, as well as quarterly loan repayment and aging reports; and
 - loan officers make monthly visits to every group.

VII. Activities

The following specific activities will be carried out under the project.

1. Loan Fund. ODF will introduce two new loan products that fit better the needs of its clients, with an administrative fee that enables the Grantee to make the credit program sustainable. ADF funds will enable ODF to increase access to credit by capitalizing its loan fund.
2. Training and Technical Assistance. In order to strengthen ODF's credit management capacity, the project will include:
 - ξ funding for two Assistant Project Officers and one Project Assistant for the first twelve months;
 - ξ training of officers and staff in credit administration and financial management ;
 - ξ training of board members and senior officers in organizational management and leadership skills;
 - ξ training of staff and clients in participatory monitoring and evaluation;
 - ξ training of staff in participatory learning methodologies;

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- § procuring Loan Performer software and providing training to the accountant and senior loan officer in its use for credit portfolio management;
 - § holding semi-annual workshops with other ADF micro-credit grantees to share experiences, best practices, and innovations in the field;
 - § acquisition of relevant office equipment and motorcycles and a vehicle to support the loan program administration; and
 - § loan monitoring, project evaluation, and auditing of organization's accounts and other basic operational expenses.
3. Member Services. Under the project, ODF staff will provide two days of training to all first-time borrowers in micro-enterprise management and bookkeeping. ADF will initially fund the training, while ODF will assume the cost after the second year of the project. Forty members in each group will be trained at a time. Since more than half of ODF's clients are illiterate and would not benefit from conventional pre-loan training, ODF staff members will be trained in participatory learning methodologies.

VIII. Roles and Responsibilities of the Parties

The President/Program Coordinator of ODF will be responsible for the execution of the project. However, a management team, composed of the officers of ODF, will be responsible for the day-to-day implementation of the project. The Board of Directors will oversee their work, and they are ultimately accountable to the ODF General Assembly of Delegates (GAD).



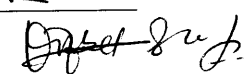
The breakdown of roles and responsibilities around specific functions is as follows:

The Project Advisory Committee, made up of the four members of the management team, six officers of GAD, one credit officer and one board member, will conduct needs assessments, evaluate viability of the proposed activities, and enlist the support of the group leaders. This committee is charged with the responsibility of staff recruitment, coordination of all training courses, systems and document reviews and development, technical assistance, and acquisition of essential equipment.

The Loan Review Committee, composed of two representatives of the board, a representative of the management, credit officers and central group leaders, will ratify the loan applications as approved by group members and leaders. This committee will oversee the periodic review of loan products, application forms, savings requirements, and interest rates.

The Loan Disbursement Committee, made up of the accountant, two representatives of the management team, credit officers and central group leaders, supervises loan disbursement and checks loan disbursement forms. The credit officers make actual loan disbursements in full view of all group members and community leaders.

The credit officers are responsible for all loan collections. They collect payments on a weekly basis in the centers where the clients reside or conduct their economic activities. As payment is made, the amount is recorded and a receipt is issued to the client. The

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amount is then turned over to the ODF accountant and the program assistant crosschecks the records.

The Loan Default Committee, made up of the head of the accounts department, the head of the program department, central group leaders and credit officers, oversees loan repayment. This committee serves delinquent borrowers with a warning. If the borrower still fails to comply, another letter is sent. After the third warning, the committee is empowered to impound assets or valuables of the defaulter equal in value to the outstanding loan balance, in addition to expelling the member from the loan scheme.

The Project Monitoring and Evaluation Committee, composed of the credit officers, six representatives of the groups and the assistant program manager, will visit the groups at least once a month to monitor loan utilization, enterprise management, group cohesion and dynamics, and application of skills acquired in pre-loan training.

Limited outside experts or facilitators will be utilized for discreet activities, which include: training in credit administration, financial management, and organizational management and leadership skills.

IX. Monitoring and Evaluation


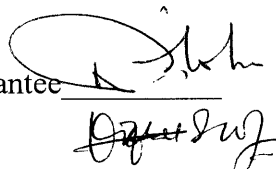
Within sixty days of the effective date of this Agreement, the Grantee, working with the ADF Partner, will form a monitoring and evaluation committee composed of a representative cross-section of the Grantee's organization. The committee will work with the Partner to develop the project monitoring plan. In addition, during implementation, the committee will ensure that the project follows the implementation plan, and that problems identified through monitoring and evaluation are addressed in a timely manner.

The Assistant Program Officer will head the Project Monitoring and Evaluation Committee and will be responsible for preparing and submitting the reports of the committee. Other members of the committee include two representatives of the groups and the seven project assistants.

The committee will conduct monthly monitoring and evaluation visits to the groups. The committee will be split into two sets, and each set will visit 14 groups each week. The participatory monitoring visit will involve an assessment of the loan utilization, enterprise management, loan repayment and savings mobilization. Necessary advice will be provided to the clients to enhance effective credit utilization and enterprise management.

The Assistant Program Officer will be responsible for ensuring that the Committee produces a report for each monitoring visit, and ODF will follow-up on all necessary remedial actions.

The ADF Partner and ADF Country Representative will, on a monthly basis at least during the initial year of the project, examine ODF's credit records to assess repayment

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rates and overall performance. Through this monitoring, ADF and ODF will agree on any remedial action, which the Grantee will then implement.

ADF will engage an external consultant to conduct a project performance assessment 18 months into the project. An impact evaluation will be conducted at the end of the project. The focus will be on assessment of the quality of life of the beneficiaries, adequacy of the credit facility in terms of size and products with reference to demand, the quality and relevance of training in relation to the needs of beneficiaries and the efficiency of the organization's credit administration. ODF's monitoring reports, its progress reports to ADF, and individual client data gathered with the new loan impact assessment tool will be used in this final evaluation.

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